

HSBC China Services PMI™ (with Composite PMI data)

PMI data paint broadly stagnant picture of overall business conditions at start of 2012

Summary

Business activity across the combined manufacturing and service sector broadly stagnated at the start of 2012, with the HSBC Composite Output Index falling from 50.8 to 49.7. There were divergences by industry, however, with continued manufacturing weakness contrasting with steady growth of services output. Nonetheless, the rate of expansion in service sector activity remained weak in the context of historic data, with the latest seasonally adjusted Business Activity Index reading of 52.5 down on the long-run trend (56.8).

Behind the latest increase in service sector business activity was a further expansion of incoming new orders. Despite accelerating to a three-month high, the pace of new order growth was comfortably below the long-run trend for the survey. This, coupled with a slower decline in new orders received by manufacturers, meant that overall new business rose for the first time in three months, albeit at a marginal rate.

Chinese service sector companies added to their staff numbers at a marginal pace at the start of 2012. In fact, the latest increase in employment was the slowest in the current three-year period of expansion. Composite data signalled a stagnation of total employment in the latest survey period.

Backlogs of work in the service sector returned to growth during January, although the rate of expansion was only slight. Manufacturers recorded a similarly marginal rate of backlog accumulation.

Average cost burdens faced by Chinese service sector companies rose further in January. The rate of inflation was nonetheless only modest, and the weakest in the current 27-month period of higher input prices. In contrast, manufacturing firms recorded a further fall in average costs.

Service providers kept their output charges broadly similar to that seen in the final month of 2011. With average tariffs set by manufacturers falling markedly in January, composite data indicated a third successive monthly decline in total charges.

When questioned about the prospects for business activity at their units over the next 12 months, service providers in China expressed continued optimism regarding the outlook. Expectations of new business wins and better market conditions were cited by survey participants as having supported positive sentiment. However, the degree of optimism was subdued in the context of historic data.

Comment

Commenting on the China Services and Composite PMI™ data, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

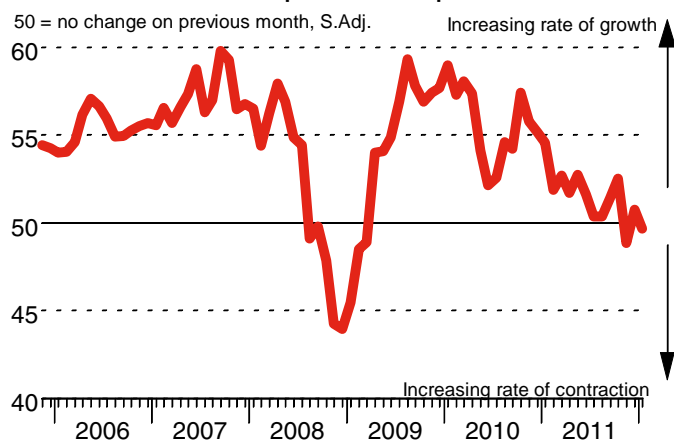
"Service sector activity kept a steady expansion in January thanks to a boost of new business. However, the overall strength of economic growth remained relatively weak, which will inevitably weigh on the jobs market if weakness persists for longer. With inflation on track to ease further, Beijing policy makers still have ample room for more policy easing measures to ensure a soft-landing."

Key points

- Composite data shows output broadly unchanged compared to previous month
- Overall input prices down for third month in succession
- Service sector business optimism remains weak in context of historic data

Historical Overview

HSBC China Composite Output PMI



Sources: Markit, HSBC.

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Notes to Editors:

The HSBC China Services PMI™ is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 private service sector companies. The panel has been carefully selected to accurately replicate the true structure of the services economy.

The HSBC China Composite PMI™ is a weighted average of the Manufacturing Output Index and the Services Business Activity Index, and is based on original survey data collected from a representative panel of over 800 companies based in the Chinese manufacturing and service sectors.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

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